

GENERAL FUND REVENUE ESTIMATES

Overview

For 2008-2009, Adopted General Fund revenue estimates (excluding fund balance) total \$818.2 million, representing a 2.3% increase from the 2007-2008 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$1.02 billion, which is 1.6% above the prior year level.

Initial estimates for the 2008-2009 beginning fund balance and for over 500 separate General Fund revenue accounts were formulated initially in a November Forecast, and updated as part of the 2009-2013 Five-Year Forecast released in February 2008. These estimates have been reviewed continually since the Forecast document was released and have been revised again, as appropriate, in this Adopted Budget based on more recent information.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in the current year (2007-2008) based on year-to-date activity; and an estimate for the increase or decrease in activity and receipts anticipated for the coming fiscal year (2008-2009). Each source of revenue is influenced by different factors, which are both external (outside of the City's control) and internal.

The 2008-2009 General Fund revenue estimates are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2006-2007 Actuals	2 2007-2008 Adopted	3 2008-2009 Forecast	4 2008-2009 Adopted	2 to 4 % Change	% of Total
Property Tax	189,683,094	198,154,000	207,392,000	208,267,000	5.1%	20.4%
Sales Tax	149,962,080	152,636,000	152,461,000	152,536,000	(0.1%)	14.9%
Transient Occupancy Tax	8,600,000	8,988,000	9,922,000	9,972,000	10.9%	1.0%
Franchise Fees	40,415,138	39,032,000	41,621,000	41,621,000	6.6%	4.1%
Utility Tax	79,129,153	79,141,000	83,690,000	83,690,000	5.7%	8.2%
Licenses and Permits	74,561,393	79,719,404	75,944,029	78,883,904	(1.0%)	7.7%
Fines and Forfeitures	14,051,529	14,707,600	15,153,000	15,726,000	6.9%	1.5%
Rev. from Money and Property	15,633,951	13,909,080	13,221,500	13,221,500	(4.9%)	1.3%
Rev. from Local Agencies	45,314,086	47,243,063	45,700,495	48,071,886	1.8%	4.7%
Rev. from State Government	13,027,917	10,429,201	9,906,994	10,265,304	(1.6%)	1.0%
Rev. from Federal Government	13,907,309	6,142,948	262,229	3,815,311	(37.9%)	0.4%
Departmental Charges	29,800,526	30,714,618	28,772,445	30,863,305	0.5%	3.0%
Other Revenue	27,128,181	18,527,194	15,973,504	17,496,485	(5.6%)	1.7%
Transfers and Reimbursements	104,746,960	100,604,767	99,548,287	103,788,542	3.2%	10.2%
Subtotal	805,961,317	799,948,875	799,568,483	818,218,237	2.3%	80.1%
Fund Balance-Carryover*	209,417,618	205,468,471	54,212,650	202,881,541	(1.3%)	19.9%
Total General Fund Sources	1,015,378,935	1,005,417,346	853,781,133	1,021,099,778	1.6%	100.0%

* The Fund Balance figure does not include the Reserve for Encumbrances.

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Economic Performance

As is the case every year, one of the most significant challenges the Administration faces in formulating a budget for the coming year is projecting the condition of the local economy and the associated revenue collections. For the 2008-2009 Adopted Budget, the revenue estimates were built on the assumption of little to no economic growth.

There continue to be debates whether the economy is currently in a recession, will slip into a recession, or will experience weak growth but not actually meet the definition of a recession. Under the best of these scenarios, very weak economic performance is expected in the upcoming year. The current economic slowdown is driven by sharp declines in the housing market, faltering financial markets, and rising energy prices. A brief discussion of the economic outlook at both the national and local levels is included below.

National Outlook

The national economy is expected to be weaker in 2008 than it was in 2007. As discussed above, the housing crisis and the severe problems in the financial and energy markets will continue to impact economic performance.

While the March 2008 UCLA Anderson Forecast continues to hold onto its no recession prediction, it points to a very weak economy: "Although we are officially not calling for a recession, it will not take much to put the U.S. economy into a recession. Should that occur, a two quarter decline in real GDP on the order of 1% a quarter would trigger absolute job declines this year and an unemployment rate of 6% by the end of the year. After all, we are in a perfect storm consisting of the worst credit crunch in

decades, falling housing prices, and \$100+ oil. Indeed, if history and global experience is any guide, the hangover from the mid-decade credit boom could last for quite some time. And to paraphrase from a recent movie, there could be blood."

Consumer confidence also continues to fall. On a national level, the Conference Board Consumer Confidence Index, which has declined in May, fell further in June 2008. Lynn Franco, Director of The Conference Board Consumer Research Center stated: "This month's Consumer Confidence Index is the fifth lowest reading ever. Consumers' assessment of present-day conditions continues to grow more negative and suggests the economy remains stuck in low gear. Looking ahead, consumers' economic outlook is so bleak that the Expectations Index has reached a new all-time low. Perhaps the silver lining to this otherwise dismal report is that Consumer Confidence may be nearing the bottom."

City of San José Outlook

Consistent with the national outlook, the severe slowdown in the housing market is expected to continue to impact this region. It is still anticipated, however, that the local economy will fare slightly better than the national economy.

The slowdown in the housing market dominates current conditions and is expected to directly impact a number of the City's revenue sources, including Property Tax and Construction and Conveyance Taxes. The slowdown in this area can also be expected to indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes.

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Overview (Cont'd.)

Economic Performance (Cont'd.)

As shown in the chart below, the number of housing sales in San José has dropped significantly in the last year.



The lack of growth in employment and increases in the unemployment rate are also indicators of a slowing economy. Job growth, while still slightly positive, lags behind the prior year. The employment figure for June 2008 of 923,200 was almost identical to the June 2007 figure of 922,400 jobs. This performance contrasts with the recent trends for modest job growth, including a 2.1% increase experienced in 2006-2007. The number of jobs in this region also remains well below the peak of 1.1 million jobs in December 2000.

The unemployment rate for the San José area of 6.1% in June 2008 was above both the May 2008 figure of 5.6% and the June 2007 level of 4.8%. The June 2008 unemployment rate for San José was also above the unadjusted rate for the nation of 5.7% but was below the unadjusted figure for the State of 7.0%.

Staff will continue to carefully monitor employment levels, unemployment rates, the performance of the local housing market, and

Sales Tax receipts as indicators of the condition of the local economy. While the revenue categories directly tied to property sales were adjusted downwards for 2008-2009, the majority of the remaining economically sensitive revenues are built on the assumption that the slowing economy will dampen growth in 2008-2009, but not result in actual declines.

If economic conditions deteriorate significantly, these assumptions will need to be reevaluated. It should be noted that the \$10 million Economic Uncertainty Reserve remains intact in the 2008-2009 Adopted Budget and could provide a funding source if the current economic performance is significantly worse than anticipated.

Impact on Non-Economically Sensitive Revenues

As discussed above, weak economic performance is anticipated in 2008-2009. When analyzing the City's General Fund revenues, however, it is important to remember that only approximately half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State, and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they can act as a buffer during an economic slowdown, easing the impact of a drop in the economically sensitive categories, or, even in times of economic strength, can hold down the City's overall revenue growth.

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Revised General Fund Forecast

Between the issuance of the February Forecast and the release of the Adopted Budget, staff has continued to review and update the estimated revenue collections for 2008-2009. Based on this analysis, a number of the revenue estimates presented in the February Forecast were revised in the Adopted Budget to reflect more recent information. The net result of these revisions is a downward adjustment (\$2.2 million) to the Forecast from \$855.95 million to \$853.8 million. This overall decrease primarily reflects reductions to the Property Tax and Transfers and Reimbursements revenue categories, partially offset by increases to the other revenue categories. Following is a summary of the changes incorporated into the revised Forecast that was used as the starting point in preparing the 2008-2009 Adopted Budget.

2008-2009 Revised Forecast Changes

<u>Category</u>	<u>Adjustment</u>
Property Tax	(\$ 1,202,000)
Transfers & Reimbursements	(621,627)
Departmental Charges	(604,225)
Use of Money and Property	(170,500)
Rev. from Local Agencies	(136,057)
Franchise Fees	(86,000)
Utility Tax	350,000
Revenue from the State	292,279
Licenses and Permits	5,556
Other Revenue	1,253
Total	(\$ 2,171,321)

These changes in each category are described below:

- The Property Tax revenue estimate was revised downwards by \$1.2 million to reflect lower projected Secured Property Tax growth based on the latest

information provided by the Santa Clara County Assessor's Office. In the Preliminary 2009-2013 General Fund Forecast released in November 2007, a Secured Property Tax growth rate of 6% was assumed for 2008-2009. This figure was reduced to 5.5% in the February 2008 Forecast, and is reduced further to 4.5% in this final General Fund Forecast. This change resulted in a \$1.6 million reduction to the Secured Property Tax estimate. This downward adjustment was partially offset by slight increases to the Unsecured Property Tax and SB 813 Property Tax categories based on higher than anticipated 2007-2008 actual collections.

- The Transfers and Reimbursements category decreased by \$622,000. The largest element of this adjustment was a downward revision of \$1.3 million based on updated overhead rates issued by the Finance Department after the release of the February 2008 Forecast. Other adjustments included an increase of \$600,000 to the Transfer from the Emergency Communication System Support Fee based on an analysis of revenue collections and expenditures and an increase of \$88,000 from the Public Works Administration Fund to reimburse the General Fund for the Plans and Specifications Update Project.
- The Departmental Charges revenue estimate decreased by \$604,000 to reflect the following: a decrease of \$528,000 to the Public Works revenue estimate based on a lower Utility Program estimate; a decrease of \$234,000 to the Planning Development Fee estimate based on the revised overhead rates and City Hall costs; and an increase of \$157,000 based on a higher Traffic Signals revenue estimate.

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Overview (Cont'd.)

Revised General Fund Forecast (Cont'd.)

- The Use of Money and Property estimate decreased by \$170,500 to reflect a slightly lower cash balance assumption in the General Fund.
- The Revenue from Local Agencies decreased by \$136,000 to reflect lower reimbursements for support services provided to the Redevelopment Agency and for CAL-ID based on revised overhead rates and staff costs.
- The Franchise Fee revenue estimate decreased by \$86,000 to reflect a reduction in the Electric Franchise Fees (\$264,000), partially offset by increases in the Gas Franchise Fee (\$116,000) and Cable Franchise Fee (\$62,000) categories based on updated estimates of current year performance.
- The Utility Tax category was increased by \$350,000 to reflect higher projected Gas Utility Tax collections.
- The Revenue from the State category was revised upwards by \$292,000 to reflect an increase in the projected Airplane In-Lieu collections (\$300,000), slightly offset by a projected decrease in the Waste Tire Enforcement reimbursement based on the lower overhead rate (\$7,721).
- The Licenses and Permits category was increased by \$5,556 based on updated fee calculations that incorporated new overhead rates.
- The Other Revenue category increased by \$1,253. This reflected an increase of \$100,000 to the Sale of Real Property estimate to cover projected costs, offset by a reduction of \$98,747 to the Finance

Investment Program reimbursement based on updated staff and overhead costs.

Changes from Forecast to Adopted Budget

From the Revised Forecast of \$853.8 million, an increase of \$167.3 million was approved, bringing the 2008-2009 Adopted Budget revenue estimate to \$1.02 billion. The components of the \$167.3 million increase include an increase in the estimate for the 2007-2008 Ending Fund Balance/2008-2009 Beginning Fund Balance (\$148.7 million) and higher revenue estimates (\$18.6 million). These changes are summarized in the chart below.

2008-2009 Adopted Budget Changes

<u>Category</u>	<u>Adjustment</u>
Beginning Fund Balance	\$ 148,668,891
Transfers & Reimbursements	4,240,255
Revenue from Fed Government	3,553,082
Licenses and Permits	2,939,875
Revenue from Local Agencies	2,371,391
Departmental Charges	2,090,860
Other Revenue	1,522,981
Property Tax	875,000
Fines, Forfeitures & Penalties	573,000
Revenue from the State	358,310
Sales Tax	75,000
<u>Transient Occupancy Tax</u>	<u>50,000</u>
Total	\$ 167,318,645

Following is a brief discussion of these changes:

- The \$148.7 million increase to the 2008-2009 Beginning Fund Balance estimate primarily reflects expenditure-related rebudgets (\$68.8 million) and the carryover of earmarked reserves from 2007-2008 to 2008-2009 (\$59.7 million),

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Changes from Forecast to Adopted Budget (Cont'd.)

which are brought to City Council at the end of the budget process. The higher fund balance also reflects the liquidation of 2007-2008 reserves (\$19.1 million), an increase in expectations for expenditure savings in 2007-2008 (\$989,000), and the liquidation of encumbrances (\$65,000). The reserves that will be liquidated and used in the 2008-2009 Adopted Budget include: 2008-2009 Future Deficit Reserve (\$7.3 million), the Salary and Benefits Reserve (\$5.0 million), the Airport Overhead Reserve (\$3.0 million), the Building Development Fee Program Reserve (\$1.6 million), the Neighborhood Investment Fund Reserve (\$546,000), the Enhanced Parks Maintenance Reserve (\$600,000), the Future Capital Projects (FF&E) Reserve (\$550,000), the Fire Fee Program Reserve (\$368,000), and the Environmental Mitigation (Burrowing Owl) Reserve (\$164,000).

- The \$4.2 million increase to the Transfers and Reimbursements category includes transfers of \$1.2 million from the Construction Excise Tax Fund, \$2.0 million from the Emergency Communication System Support Fee Fund to support the purchase of furniture and equipment for the dispatchers and the 9-1-1 uninterrupted Power Supply, \$400,000 from the Vehicle Fund, and \$370,000 from various funds to support post-employment health benefits. The estimated overhead payments increased by \$260,000 to reflect approved staffing adjustments. The reimbursement for the Deferred Compensation Program also increased by \$26,000 to reflect the reimbursement for additional non-personal funding.

- The increase of \$3.5 million to the Revenue from the Federal Government category primarily reflects the rebudget of grants from 2007-2008 to 2008-2009. The largest of these grants were as follows: the 2007 Super UASI - Police (\$1,199,665); 2007 Super UASI-OES (\$833,229); 2006 Super UASI-OES (\$652,487); 2006 Bureau of Justice Grant – Gang Intervention/Prevention (\$264,796); and Comprehensive Approaches to Sex Offender Management (\$152,928).
- The Licenses and Permits (up \$2.9 million) and the Departmental Charges (up \$2.1 million) categories were adjusted to reflect updated fees to remain at cost recovery in the various fee programs and to reflect increased collection efforts by the Finance Department, including a new Business Field Enforcement Pilot Program. The Departmental Charges category also includes a new Business Tax Administration Fee (\$1.4 million). While the majority of the adjustments result in higher revenue estimates, the Licenses and Permits category includes a decrease of \$543,000 to the Disposal Facility Tax estimate. Increased recycling efforts in multi-family units and green vision efforts are expected to reduce the amount of garbage entering the landfills. A decrease of \$1.8 million is incorporated into the Departmental Charges category to reflect the loss of revenue due to the close of Happy Hollow Park and Zoo during renovations. This decrease was assumed in the development of the 2009-2013 General Fund Forecast.
- The increase of \$2.4 million to the Revenue from Local Agencies category primarily reflects increased reimbursement from the San Jose Redevelopment Agency

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Overview (Cont'd.)

Changes from Forecast to Adopted Budget (Cont'd.)

- (SJRA) (\$1.8 million). This amount includes \$1.4 million in increased SJRA reimbursement for eligible capital projects to free up funds to support the San José BEST program (\$1.0 million) and the addition of eight new police officers (\$358,000). Increased reimbursement from the County of Santa Clara is projected to support the MORE Hits program (\$48,000), the Mugshot Program (\$109,000), the Automatic Fingerprint Information System (AFIS) Printrak (\$18,000), the Northside Senior Nutrition Program (\$65,000), and bomb technical training (\$22,000). This category also reflects the rebudget of several grants (\$103,000).
- The \$1.5 million increase to the Other Revenue category reflects the following: \$450,000 associated with the sale of property located at 450 Park Avenue; \$400,000 associated with the cost-recovery charges for tree maintenance; \$200,000 in contributions from the City's health insurance providers to support a City Wellness Program; the recognition of revenue from Pacific Gas and Electric for the Energy Watch Program (\$189,000); the rebudget of funds for Public Art in Private Development (\$136,000) and Hazardous Materials Consent Judgment (\$71,000); and an increase of \$78,000 in the reimbursement for the City's Investment Program.

- The \$875,000 increase to Property Tax reflects updated information from the Santa Clara County Assessor's Office on the estimated receipts for 2007-2008 that will increase the starting point for 2008-2009.
- The \$573,000 increase to the Fines, Forfeitures, and Penalties category reflects an increase to the Parking Fines revenue estimate due to increased enforcement associated with new Parking and Traffic Control Officers (\$523,000), and new Animal Licensing Fines (\$50,000).
- The \$358,000 increase to Revenue from the State reflects the rebudget of funds for grants and the San Jose After School District Contracts – Year 2.
- The \$75,000 increase to the Sales Tax category and the \$50,000 increase to the Transient Occupancy Tax category reflect the higher revenue expected to be generated as a result of the continued implementation of the Revenue Collection Strategic Plan by the Finance Department.

Following is a discussion by revenue category of the anticipated performance for 2008-2009, including a description of any changes to the revenue estimates as part of the Adopted Budget. See the *General Fund Revenue Descriptions* at the end of this section for a description of General Fund revenue sources.

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PROPERTY TAX

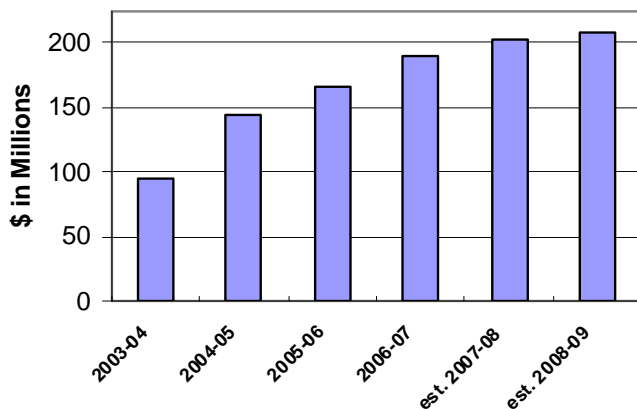
2006-2007 Actual	\$189,683,094
2007-2008 Adopted	\$198,154,000
2008-2009 Forecast*	\$207,392,000
2008-2009 Adopted	\$208,267,000
% of General Fund	20.4%
% Change from 2007-2008 Adopted	5.1%

* Revised downwards by \$1.2 million from the February Forecast, primarily reflecting lower projected Secured Property Tax growth in 2008-2009.

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

Collection Trend:



Note: the large increase in 2004-2005 reflects the permanent conversion of Motor Vehicle In-Lieu fees to Property Taxes.

Revenue Estimates:

In 2007-2008, Property Tax receipts are projected to total \$202.6 million, which

represents growth of 6.8% over the prior year. This moderate growth reflects increases in both the Secured and Unsecured categories, offset by a projected decrease in the SB 813 (property resales) collection area. It should be noted that the estimate for 2007-2008 Secured Property Tax was increased by \$875,000 during the final budget adoption process based on updated information from the County.

In 2008-2009, the overall rate of growth is expected to slow considerably to 2.8% to a total collection level of \$208.3 million. Additional information about each of the Property Tax subcategories is provided below.

Secured Property Tax

Secured Property Taxes account for approximately 90% of the revenues in this category. In recent years, growth in this area has been surprisingly strong, driven by a high volume of property turnovers and significant increases in home prices. With the severe slowdown in the housing market, however, the high level of Secured Property Tax growth is not expected to continue.

In 2008-2009, Secured Property Tax growth will be driven by annual growth in the property tax roll, which in turn will be based on real estate activity in calendar year 2007. Activity in 2007 slowed considerably with a

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Property Tax (Cont'd.)

32% drop in the number of residential property sales. Secured Property Tax roll growth of 4.5% is projected for 2008-2009, which would bring collections to \$192.1 million. This growth rate, which is based on preliminary information from the Santa Clara County Assessor's Office, is down from earlier estimates and is well below the 8% growth projected for 2007-2008.

The lower growth rate is due, in part, to an increase in Proposition 8 adjustments processed by the County Assessor's Office that reduce the property tax for properties that have experienced a reduction in value. The Assessor's Office distributed data on the Proposition 8 adjustments from 2008-2009 and it showed that the number of Proposition 8 adjustments in San José has almost tripled from 8,504 properties for the 2007-2008 tax roll to 24,613 properties for the 2008-2009 tax roll. The change in valuation associated with the Proposition 8 properties increased from \$822 million in 2007-2008 to \$2.16 billion in 2008-2009. Typically, the County Assessor's Office reviews residential properties that have changed ownership in the past calendar year to determine the Proposition 8 adjustments. However, given the current condition of the housing market, the County Assessor expanded this residential review to include all properties that had changed ownership in 2005 and 2006 as well as 2007.

The County Assessor's Office will make adjustments to the 2008-2009 property tax roll until July 1, 2008.

Unsecured Property Tax

The second largest revenue source in this category is Current and Prior Unsecured Property Taxes. Growth in this category is driven primarily by increases in the value of personal property (e.g. equipment and

machinery used by business and industry for manufacturing and production). During the last decade, performance in this category has been extremely volatile with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Collections have experienced slight growth in recent years. In 2007-2008, growth of 4.75% is projected and would bring receipts to \$11.1 million. This collection level is also projected for 2008-2009.

It should be noted, however, that this estimate assumes that the County Assessor will not be taking any preemptory actions to change the depreciation schedules used to value major business equipment items. Due to the volatility in collections for the past several years, this revenue source will require continued close monitoring in 2008-2009.

SB 813 Property Tax (Property Resales)

SB 813 Property Taxes (supplemental taxes) represent payments for taxes owed on recent housing resales. With the significant drop in the number of housing resales, collections in this category are expected to experience significant declines in both 2007-2008 and 2008-2009. SB 813 Property Tax revenue is expected to fall from the \$8.0 million in 2006-2007 to \$6.5 million in 2007-2008. Collections are projected to fall an additional 40% in 2008-2009 to \$3.9 million based on the assumption that the housing market will continue to experience significant declines through next year.

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Collections of \$1.1 million are anticipated in 2007-2008. Revenues in this category are expected to remain flat in 2008-2009.

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SALES TAX

2006-2007 Actual	\$149,962,080
2007-2008 Adopted	\$152,636,000
2008-2009 Forecast	\$152,461,000
2008-2009 Adopted	\$152,536,000
% of General Fund	14.9%
% Change from 2007-2008 Adopted	(0.1%)

Major Categories:

- General Sales Tax
- Public Safety (Proposition 172) Sales Tax

Distribution of Sales Tax:

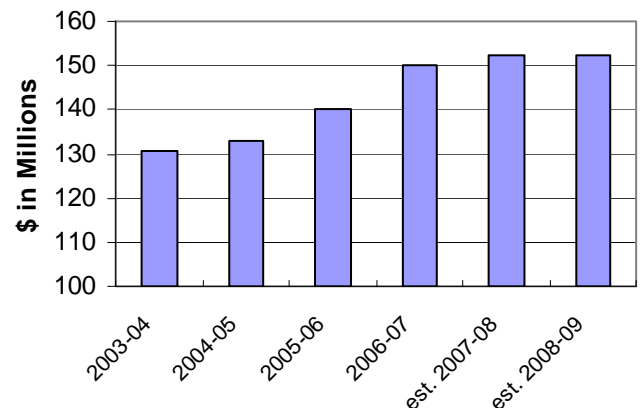
As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected statewide.

<u>Agency</u>	<u>Distribution Percentage</u>
State of California	5.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	0.50%
Total Sales Tax Rate	8.25%

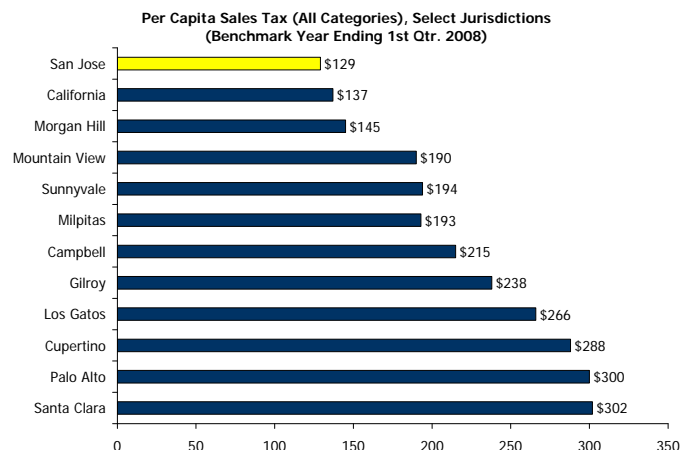
Starting in 2004-2005, the City was impacted by the State action known as the “Triple Flip”, which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City’s one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (Primarily ERAF). This action, which went into effect on July 1, 2004, is to last only for the life of the bonds. The City will, however, continue to record the

replacement property tax revenues as sales tax because the growth formula for these receipts is tied to sales tax and this action is considered a temporary property tax in lieu of sales tax.

Collection Trend:



As shown in the chart below, the per capita Sales Tax in San José is typically lower than in neighboring cities.



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Sales Tax (Cont'd.)

Revenue Estimates:

Overall, collections are expected to increase 1.6% in 2007-2008 to \$152.4 million and remain at essentially the same level for 2008-2009 at \$152.5 million.

General Sales Tax

In 2007-2008 General Sales Tax receipts are expected to meet the budgeted estimate of \$147.9 million. This reflects growth of 1.8% over the 2006-2007 actual collections. For 2008-2009, General Sales Tax receipts are projected at \$148.0 million. While it appears that no increase is built into the estimate, there is an underlying growth rate of approximately 1% assumed for each quarter over the 2007-2008 estimates. This growth is offset by two factors. The 2007-2008 estimate does benefit from an underaccrual from the prior year, which had accounted for a portion of the growth in 2007-2008 but was not part of the base revenues from which the 2008-2009 revenue estimate was developed. In addition, the estimated 2008-2009 payment from the State for the “triple flip” payment reflects no growth and assumes a slight negative true-up payment associated with 2007-2008 collections, which brings down the growth for 2008-2009.

The General Sales Tax figure also includes a \$75,000 upward adjustment as part of the Adopted Budget to reflect the continued implementation of the Revenue Collection Strategic Plan by the Finance Department that

is expected to generate additional Sales Tax revenue.

The Sales Tax revenue estimate is built on the assumption that the current economic slowdown will result in minimal Sales Tax growth in 2008-2009. Consumer spending is expected to be particularly weak in the upcoming year. The extremely low consumer confidence levels, the faltering financial markets, and the slowdown in the housing market are all expected to dampen consumer spending.

Volatility in the City’s Sales Tax collection experience for the past several years makes forecasting the General Sales Tax category a challenging task. This is particularly difficult for 2008-2009 given the uncertainty regarding the depth and length of the current economic slowdown.

Consistent with past years, therefore, Sales Tax collections will be carefully monitored during the year and the status reported to the City Council through Bi-Monthly Financial Reports.

Public Safety (Proposition 172) Sales Tax

Proposition 172 Sales Tax collections (representing the one-half cent tax that is allocated to counties and cities on an ongoing basis for use in funding public safety programs) are expected to total \$4.5 million in 2007-2008 based on actual collections. This represents a slight decline from the 2006-2007 collections of \$4.6 million. In 2008-2009, collections are projected to remain flat at \$4.5 million.

GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

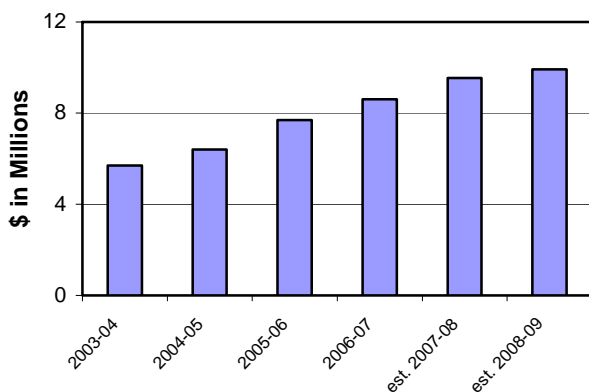
2006-2007 Actual	\$8,600,000
2007-2008 Adopted	\$8,988,000
2008-2009 Forecast	\$9,922,000
2008-2009 Adopted	\$9,972,000
% of General Fund	1.0%
% Change from 2007-2008 Adopted	10.9%

Distribution of the Transient Occupancy Tax:

The City of San José assesses a ten percent Transient Occupancy Tax on the rental price for transient lodging. Of this ten percent, six percent is placed in the Transient Occupancy Tax Fund and four percent is deposited in the General Fund. This discussion addresses the portion of the Transient Occupancy Tax that is allocated to the General Fund as a general tax.

The allocation of the six percent portion is described in the Source and Use Statement for the Transient Occupancy Tax Fund.

Collection Trend:



Revenue Estimates:

Based on current collection trends, it is estimated that Transient Occupancy Tax

receipts will total \$9.5 million in 2007-2008, which is 10.9% above the 2006-2007 collection level. In 2008-2009, lower growth of 4.5% is anticipated, reflecting the projected impact of a slowing economy.

The performance in this category has mirrored the overall performance of the economy. As a result, growth in this category had been relatively strong in recent years, with increases of 12% in 2004-2005, 20% in 2005-2006, 12% in 2006-2007, and projected growth of 11% in 2007-2008. In contrast, the growth in these years was preceded by three years in which collections declined significantly as a result of the recession in the early part of this decade.

In 2008-2009, the number of available hotel rooms is expected to remain relatively unchanged, with slight increases in room rates and occupancy rates. This is expected to result in underlying growth of 4.0% in 2008-2009. In addition, the continued implementation of the Revenue Collection Strategic Plan by the Finance Department is expected to generate additional Transient Occupancy Tax revenue of \$50,000, which would bring the overall growth to 4.5%. Performance in this revenue category will have to be closely monitored. If the economy deteriorates to a greater extent than currently anticipated, this growth factor may need to be adjusted downwards.

GENERAL FUND REVENUE ESTIMATES

FRANCHISE FEES

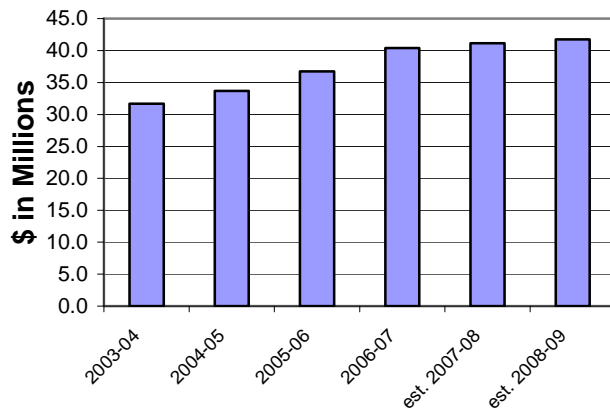
2006-2007 Actual	\$40,415,138
2007-2008 Adopted	\$39,032,000
2008-2009 Forecast*	\$41,621,000
2008-2009 Adopted	\$41,621,000
% of General Fund	4.1%
% Change from 2007-2008 Adopted	6.6%

* Revised downwards by \$86,000 to reflect a decrease to Electric Franchise Fees (\$264,000) offset by increases in the Cable (\$62,000) and the Electric Franchise (\$116,000) categories.

Major Categories:

- Electricity, Gas, and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Collection Trend:



Revenue Estimates:

Electricity, Gas, and Water Utility Services

The 2007-2008 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based upon the proceeds of that company in the calendar year 2007. Collections are expected to total \$15.1 million in the Electric Franchise Fee category and

\$5.5 million in the Gas Franchise Fee category based on payment information received from PG&E.

The 2008-2009 Adopted Budget estimate for both the Electricity and Gas Franchise Fees is based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts. The actual receipts will be based on activity in calendar year 2008.

For the Electricity Franchise Fee, modest growth of 3% is anticipated based on relatively stable rates for electricity, bringing collections to an estimated \$15.6 million. The revised Forecast included a \$264,000 downward adjustment to the Electric Franchise Fee category based on a lower estimate for 2007-2008. In the Gas Franchise Fee area, collections are expected to total \$5.7 million, a 3% increase from the estimated 2007-2008 collection level. The Revised Forecast included an increase of \$116,000 to the Gas Franchise Fee estimate based on a revised projection for 2007-2008. Actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

GENERAL FUND REVENUE ESTIMATES

Franchise Fees (Cont'd.)

Electricity, Gas, and Water Utility Services *(Cont'd.)*

Water Franchise Fees are expected to total \$244,000 in 2008-2009 based on current collection trends and a projected increase in water rates. As with the Gas Franchise Fees, collections in this area can vary based on the impact of weather conditions that may influence water usage.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are anticipated to reach \$12.3 million in 2007-2008 and drop slightly to \$12.0 million in 2008-2009.

Cable Television

The 2008-2009 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$6.9 million reflects an increase of 3% from the 2007-2008 estimated collection level. The Revised Forecast included an upward adjustment of \$62,000 in this category based on a revised projection for 2007-2008.

City-Generated Towing and Nitrogen Pipelines

Consistent with current year performance, City-Generated Towing Franchise Fee revenues are expected to total \$1.2 million in 2008-2009 and proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$58,000 in 2008-2009.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAX

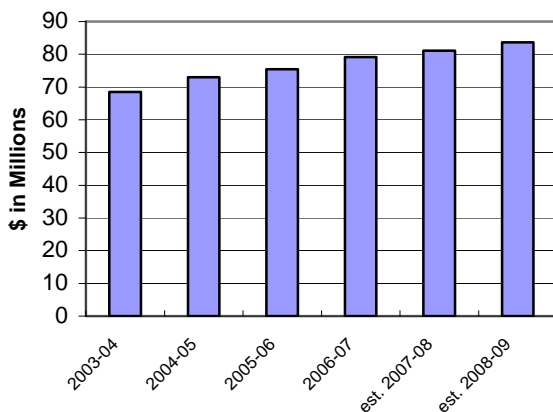
2006-2007 Actual	\$79,129,153
2007-2008 Adopted	\$79,141,000
2008-2009 Forecast*	\$83,690,000
2008-2009 Adopted	\$83,690,000
% of General Fund	8.2%
% Change from 2007-2008 Adopted	5.7%

* Reflects an increase of \$350,000 from the February Forecast based on higher Gas Utility Tax collection trends.

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

The 2007-2008 year-end estimate of \$37.7 million for Electricity Utility Taxes represents growth of 2.6% when compared to 2006-2007 actual collection levels. In 2008-2009, collections are estimated at \$38.8 million, reflecting anticipated growth of 3.0% over the 2007-2008 estimated collections based on the

assumption that rate increases will be minimal and consumption will experience slight growth.

Gas Utility Tax

It is anticipated that Gas Utility Taxes will total approximately \$10.3 million in 2007-2008 and will increase 3% to \$10.7 million in 2008-2009. The Revised Forecast was increased by \$350,000 to reflect the higher collection trends in 2007-2008.

Water Utility Tax

The 2008-2009 estimate for Water Utility Taxes of \$8.5 million assumes growth of approximately 5.0% over the estimated 2007-2008 collection level. This growth expectation reflects the impact of an anticipated increase in wholesale water rates and essentially flat consumption rates. It should be noted that this category is also subject to fluctuations based on weather conditions.

Telephone Utility Tax

In the Telephone Utility Tax category, collections in 2007-2008 are expected to reach \$25.2 million. In 2008-2009, minimal growth of 2% is projected, bringing estimated collections to \$25.7 million.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

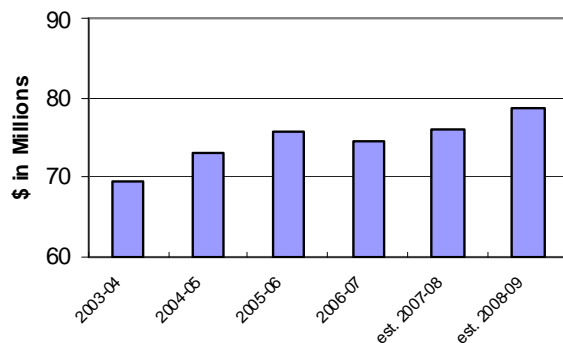
2006-2007 Actual	\$74,561,393
2007-2008 Adopted	\$79,719,404
2008-2009 Forecast*	\$75,944,029
2008-2009 Adopted	\$78,883,904
% of General Fund	7.7%
% Change from 2007-2008 Adopted	(1.0%)

* Increased by \$5,556 from the February Forecast to reflect revised overhead rates from the Finance Department that impact fee calculations.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

Collection Trend:



Revenue Estimates:

Business Tax

In 2008-2009, General Business Tax proceeds are expected to reach the budgeted estimate of \$12.6 million. From the base level of \$12.6 million in 2008-2009, an increase of \$650,000 was approved, bringing estimated collections to \$13.3 million. This increase reflects the additional revenue the Finance Department

projects will be generated from a new Business Field Enforcement Pilot Program (\$500,000) and the continuation of the Revenue Collection Strategic Plan (\$150,000). This change in revenue will help support the addition of two new positions in the Finance Department for the Business Field Enforcement Pilot Program and the continuation of existing positions added in 2007-2008 for the Revenue Collection Strategic Plan.

Cardroom Tax

Cardroom Tax collections are anticipated to reach \$12.0 million in both 2007-2008 and 2008-2009. This estimate assumes that there will be no change in the operation of the cardrooms in 2008-2009.

Disposal Facility Tax

In 2007-2008, Disposal Facility Tax (DFT) revenue collections are estimated at \$13.7 million, a decrease of 6.9% from the 2006-2007 collection level. The 2008-2009 Base revenue estimate was also set at \$13.7 million. From this base level, a decrease of \$543,000 is anticipated, bringing the 2008-2009 Adopted Budget revenue estimate to \$13.2 million. This reduction reflects the anticipated impact associated with increased multi-family waste diversion efforts as well as Green Vision initiatives.

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Fire Permits

The 2008-2009 Adopted Budget revenue estimate of \$9.3 million represents 11.7% growth from the 2007-2008 Adopted Budget. The Fire Fee Program aligns projected revenues and costs to remain at 100% cost recovery.

This fee program includes both the development and non-development fee areas. To maintain cost-recovery in these areas, a number of budget actions were approved in the Adopted Budget, including a fee increase of 4% in development fees that will generate \$220,000 and a 10% increase in non-development fees that will generate \$322,000. On the expenditure side, a reduction in overtime and a one-time reduction in non-personal/equipment were approved in the non-development area to support temporary Analyst staffing. For development expenditures, position shifts from the non-development area to reflect workload changes, the addition of a limit-dated Associate Engineer position through 2009-2010, along with other one-time actions such as overtime, a database upgrade, and various staff funding shifts from the Building Fee Program to the Fire Fee Program were approved. Because the 2008-2009 projected revenues are not sufficient to cover the development area's budgeted costs, the use of \$368,000 from the Fire Fee Reserve was also approved.

These budget actions are also described in the Fire Prevention Core Service (Public Safety City Service Area) and the Fire Safety Code Compliance Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2008-2009 Fees and Charges document that is released under separate cover.

Building Permits

The 2008-2009 Adopted Budget revenue estimate of \$23.85 million represents an increase of 13.5% from the 2007-2008 year-end estimate of \$21.0 million and a 8.2% increase from the 2008-2009 base budget level of \$22.05 million.

The Building Fee Program is structured to be 100% cost-recovery. To maintain this cost-recovery status for 2008-2009, a number of budget actions were approved in the Adopted Budget, including a fee increase of 10%, reinstatement of the Temporary Certificate of Occupancy Fee (which was eliminated in 2005-2006), adjustments to the commercial/industrial hourly fees, and the use of \$1.6 million from the Building Fee Reserve. On the expenditure side, the elimination of sixteen positions supported by this program and a reduction of \$200,000 in non-personal/equipment were approved. Additional detail on these budget actions is provided in the Development Plan Review and Building Construction Inspection Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2008-2009 Fees and Charges document.

Miscellaneous Other Licenses and Permits

The 2008-2009 Adopted Budget includes \$7.4 million from a variety of other Licenses and Permits. This figure reflects an increase of \$391,000 from the Forecast for the following: an increase of \$248,000 to the Cardroom Table Fee revenue that will fund the addition of two Senior Auditor positions; an \$81,000 increase to the Police Public Entertainment Permit revenue to bring this fee to cost recovery; a \$57,000 increase in Multiple Housing Permit fee revenue, representing a 2% increase to reach 100% cost recovery; and several other minor adjustments.

GENERAL FUND REVENUE ESTIMATES

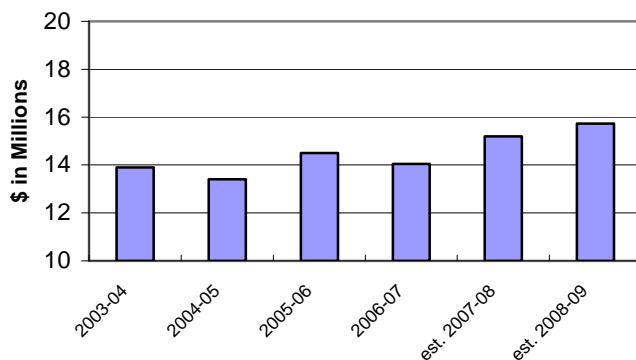
FINES, FORFEITURES, AND PENALTIES

2006-2007 Actual	\$14,051,529
2007-2008 Adopted	\$14,707,600
2008-2009 Forecast	\$15,153,000
2008-2009 Adopted'	\$15,726,000
% of General Fund	1.5%
% Change from 2007-2008 Adopted	6.9%

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax and Cardroom Penalties
- Administrative Citation Program
- Other Fines and Penalties

Collection Trend:



Revenue Estimates:

For 2008-2009, overall collections in this category are expected to reach \$15.7 million, an increase from the 2007-2008 year-end estimate of \$15.2 million. Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2008-2009, Vehicle Code Fines are estimated at \$3.1 million and Municipal Court Fines are expected to reach \$1.3 million, consistent with current collection patterns for these revenue categories.

Parking Fines

In 2008-2009, the base revenue estimate for Parking Fines was set at \$8.2 million, which is consistent with current collection trends. As part of the 2008-2009 Adopted Budget, this revenue estimate was increased by \$523,000 to \$8.7 million. This change reflects the anticipated increase in citations associated with the addition of two Parking and Traffic Control Officers approved in this budget. These positions will enhance the School Areas Safety and Parking Compliance Program. The increase in citations is not expected to be in school zones exclusively as these positions will issue citations in other areas as well.

Business Tax and Cardroom Penalties

Business Tax penalties are projected at \$1.0 million for 2008-2009, which is consistent with historical collection patterns. The 2008-2009 Adopted Budget also includes \$539,000 from the outstanding Garden City fine that is being repaid over a 28-month period that started in April 2007.

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures, and Penalties (Cont'd.)

Administrative Citation Program

In 2008-2009, the Administrative Citation Program is projected to generate approximately \$600,000 in fines and an additional \$150,000 in penalties, for a total of \$750,000. These estimates are consistent with the 2007-2008 year-end estimates.

Other Fines and Penalties

In 2008-2009, other Fines and Penalties are expected to generate \$319,000 from a variety of sources. This includes an increase of \$50,000 from the base estimate to reflect the addition of Animal Licensing Fines included as part of the 2008-2009 Adopted Budget.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

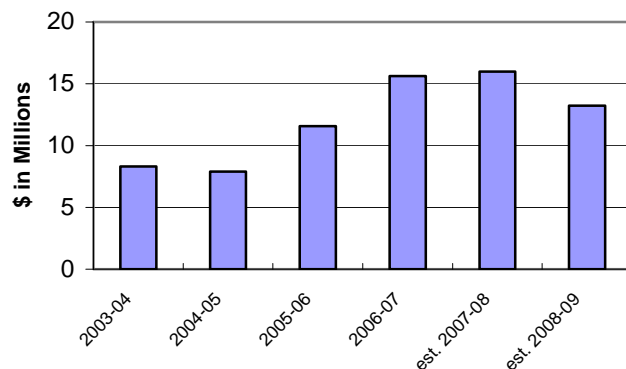
2006-2007 Actual	\$15,633,951
2007-2008 Adopted	\$13,909,080
2008-2009 Forecast*	\$13,221,500
2008-2009 Adopted	\$13,221,500
% of General Fund	1.3%
% Change from 2007-2008 Adopted	(4.9%)

* Reflects a decrease of \$170,500 from the February Forecast based on a slightly lower cash balance assumption.

Major Categories:

- General Fund Interest Earnings
- Special Funds Interest Earnings
- Miscellaneous Collections

Collection Trend:



Revenue Estimates:

The largest source of revenue in the Use of Money and Property category is earnings on investments of General Fund and several other funds' cash.

General Fund Interest Earnings

For 2008-2009, an average interest yield of 3.41% is assumed based on an analysis by the Finance Department of the City's portfolio and the projected interest earnings for the

various investments. This interest yield is applied to an estimated average cash balance of \$235 million for a total General Fund interest earnings projection of \$8.0 million. This amount is below the 2007-2008 Adopted Budget estimate of \$9.2 million, based on a lower interest earning assumption (3.41% versus 4.4%). The average cash balance assumption was, however, increased from \$210 million to \$235 million.

Special Funds Interest Earnings

The interest income estimate from Special and Capital Funds in 2008-2009, totaling approximately \$3.6 million, is projected to be lower than the 2007-2008 Adopted Budget estimate of \$3.8 million and the 2007-2008 year-end estimate. It is assumed that lower interest yields will reduce interest earning from these funds.

Miscellaneous Collections

Based on 2007-2008 projections, it is anticipated that approximately \$1.6 million will be generated in 2008-2009 from Property Tax interest, Subrogation Recovery, property rentals, and interest on various executive loans.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

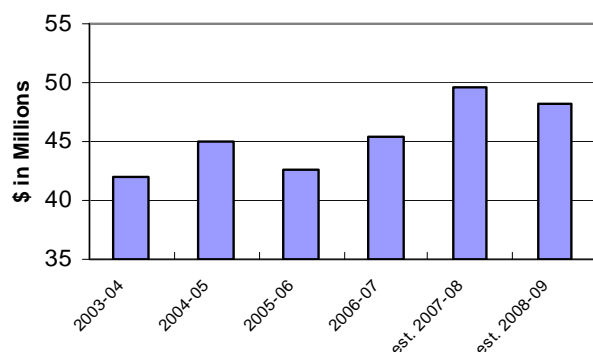
2006-2007 Actual	\$45,314,086
2007-2008 Adopted	\$47,243,063
2008-2009 Forecast*	\$45,700,495
2008-2009 Adopted	\$48,071,886
% of General Fund	4.7%
% Change from 2007-2008 Adopted	1.8%

* Decreased by \$136,057 from the February Forecast to reflect updated estimates for reimbursements from the Redevelopment Agency and CAL-ID.

Major Categories:

- Reimbursement from the San Jose Redevelopment Agency (Agency) for City Staff/Overhead
- Agency Payment for Convention Center Debt Service and City Capital Expenditures
- Enterprise Fund In-Lieu Charges
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

San Jose Redevelopment Agency

The San Jose Redevelopment Agency reimbursements included in the February

Forecast Budget totaled \$30.1 million. This figure included \$12.8 million to cover the estimated 2008-2009 costs for Agency staff and the current complement of City support services provided to the Agency; \$14.3 million for the Convention Center Lease payment based on the debt payment schedule; and \$3.0 million for City capital expenditures, which enables the City to fund the San José BEST Program. The base figure was adjusted downwards by approximately \$112,000 to reflect updated estimates for these reimbursements.

As part of the Adopted Budget, the revenue from the Agency is expected to increase by \$1.8 million to a total reimbursement level of \$17.5 million. The following adjustments were approved:

- Increase of \$1.4 million to reimburse the General Fund for eligible capital costs. This will free up funds in the General Fund to support the San José BEST Program (a \$1.0 million increase from \$3 million to \$4 million) and the addition of eight Police Officer positions (\$357,768 in 2008-2009 and \$917,000 ongoing).
- Increase of \$469,526 to reflect the shift of three staff and associated overhead from the Office of Economic Development to the Redevelopment Agency to support the Revolving Loan Fund and the Enterprise

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies (Cont'd.)

Redevelopment Agency (Cont'd.)

Zone. The cost of these civil service positions will be budgeted in the General Fund and reimbursed by the Redevelopment Agency.

- Increase of \$74,818 on a one-time basis to support blight abatement efforts in the downtown area.
- Increase of \$51,346 to support audit services to be provided by the City Auditor's Office.
- Decrease of \$133,816 to reflect lower reimbursements for the Mayor and City Council as a result of budget reductions in these areas.
- Decrease of \$8,283 to reflect the lower funding for the community-based organizations in the Office of Economic Development.

Enterprise Fund In-Lieu Charges

The estimate for Revenue from Local Agencies assumes total Enterprise Fund In-Lieu Charges of \$2.4 million. These payments are received from the Municipal Water System and Water Pollution Control Plant enterprise funds in-lieu of franchise fees and other various taxes and fees, which the City would have received if these entities were privately owned. This figure is well below the 2007-2008 Adopted Budget of \$4.3 million to reflect the first year of a two-year phase-out of this payment.

Central Fire District and Paramedic Program Payments

Property taxes fund the Central Fire District, and those payments for the County areas covered by the San José Fire Department are

passed on to the City. For 2007-2008, Central Fire District payments are expected to end the year at \$5.8 million. In 2008-2009, growth of 4.0% is projected, bringing total estimated collections to \$6.0 million.

In 2008-2009, payments from the County of Santa Clara for the first responder advanced life support program (Paramedic Program) are assumed at \$1.8 million based on the agreement with the County.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2008-2009, the base level of revenue was generally set at approximately the 2007-2008 estimated level. The 2008-2009 Adopted Budget includes the following adjustments:

- Increase of \$196,297 from the County to support the maintenance of the Mugshot photo database system (\$108,682), to upgrade the MORE Hits forensic image processing system (\$48,000), to provide a Large Vehicle-Borne Countermeasure course for bomb technicians using Bay Area Super Urban Area Security Initiative funds (\$22,000); and to fund an increase in the Printrak fingerprint database maintenance costs (\$17,615).
- Increase of \$196,073 fund the Police Department participation in the South Bay Terrorism Early Warning Group.
- Increase of \$64,552 from the County to support the Northside Senior Nutrition Program.
- Increase of \$103,000 to reflect the following rebudgets: State Homeland Security Grant (\$47,401); Silicon Valley Energy Partnership Grant (\$22,000); PG&E Energy Watch Grant (\$20,000); and the Therapeutic Services-San Andreas Regional Center Grant (\$13,709).

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE STATE OF CALIFORNIA

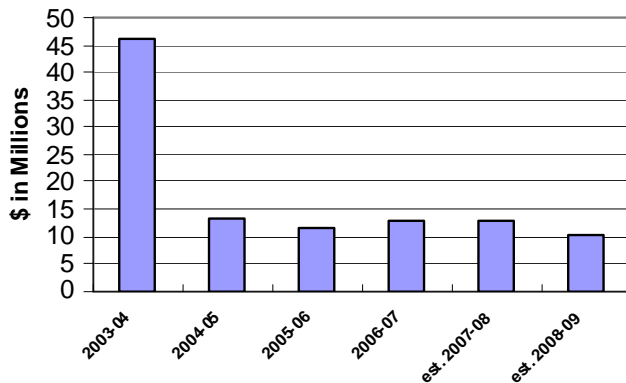
2006-2007 Actual	\$13,027,917
2007-2008 Adopted	\$10,429,201
2008-2009 Forecast*	\$9,906,994
2008-2009 Adopted	\$10,265,304
% of General Fund	1.0%
% Change from 2007-2008 Adopted	(1.6%)

* Increased by \$292,279 from the February Forecast to reflect higher projected Airplane Unsecured Property Taxes (\$300,000) and lower Waste Tire Enforcement (\$7,721).

Major Categories:

- Motor Vehicle In-Lieu and Airplane Taxes
- State Grants

Collection Trend:



Note: the large decrease in 2004-2005 reflects the permanent conversion of Motor Vehicle In-Lieu fees to Property Taxes.

Revenue Estimates:

Motor Vehicle In-Lieu and Airplane Taxes

In 2007-2008, Motor Vehicle In-Lieu collections are expected to reach \$4.8 million based on current collection trends. Receipts in this area are tracking well below the 2006-2007 levels due to the current economic slowdown that has impacted new car sales.

This reflects the 8% drop in new car registrations experienced in 2007 and an additional 4% projected drop in 2008 (California Auto Outlook, January 2008). Because activity is expected to improve in 2009, slight growth of 2.0% is projected, bringing estimated revenues to \$4.9 million.

The Aircraft Unsecured Property Tax receipts are expected to reach \$2.8 million in 2008-2009. In 2007-2008, collections in this category are projected to total \$5.1 million, which is well above the 2006-2007 collection level of \$2.1 million based on efforts by the County of Santa Clara to audit these payments. A portion of the 2007-2008 receipts that resulted from the audit is expected to be one-time and represent prior year payments. The \$2.8 million estimate for 2008-2009 represents the amount of ongoing revenue expected from this source. This figure was adjusted upwards by \$300,000 from the February Forecast.

State Grants

Public Library Fund (PLF) SB 358 grant funds are estimated to total \$371,000 in 2008-2009, reflecting the anticipated level of funding from the State. This figure is consistent with the actual 2007-2008 collection levels. At this point, no presumption has been made about whether

GENERAL FUND REVENUE ESTIMATES

Revenue From the State of California (Cont'd.)

the State budget will negatively impact these receipts.

Abandoned Vehicle fee revenue of \$710,000 is anticipated in 2008-2009, reflecting no growth from the current year-end estimate. Also included in this Adopted Budget is anticipated revenue of \$370,000 for Auto Theft Reimbursement, \$250,000 for Vehicle License Collection In Excess, \$287,000 for

Highway Maintenance Charges, \$177,000 for Waste Tire Enforcement, and \$46,000 for the Early Care and Lifelong Learning Program grant.

The Adopted Budget also includes the rebudget of funding for the following: Internet Crimes Against Children Task Force (\$250,000); San Jose After School District Contracts (\$65,000); and the Office of Traffic Safety – Safety Checkpoint Mini-Grant (\$43,310).

GENERAL FUND REVENUE ESTIMATES

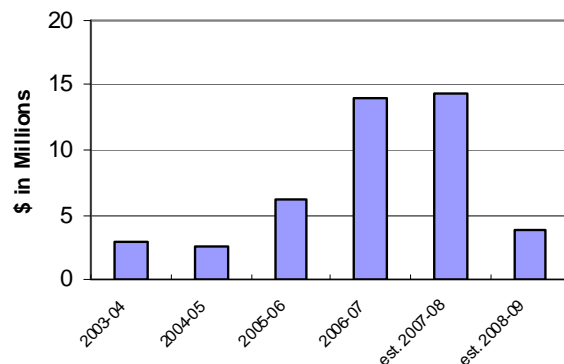
REVENUE FROM THE FEDERAL GOVERNMENT

2006-2007 Actual	\$13,907,309
2007-2008 Adopted	\$6,142,948
2008-2009 Forecast	\$262,229
2008-2009 Adopted	\$3,815,311
% of General Fund	0.4%
% Change from 2007-2008 Adopted	(37.9%)

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2008-2009 Adopted Budget only includes those grant proceeds known to be obligated for next year. The Adopted Budget includes new grant funding for the following: Senior Companion Program (\$130,000); Retired and Senior Volunteer Program (\$92,000); Juvenile Justice and Delinquency Prevention (\$40,000); Weed and Seed – Burbank Neighborhood (\$21,875); and Federal Bureau of Investigation – Silicon Valley Computer Forensic Lab (\$15,854).

In addition, the following grants were rebudgeted from 2007-2008 to 2008-2009: 2007 Super UASI - Police (\$1,199,665); 2007 Super UASI-OES (\$833,229); 2006 Super UASI-OES (\$652,487); 2006 Bureau of Justice Grant – Gang Intervention/Prevention (\$264,796); Comprehensive Approaches to Sex Offender Management (\$152,928); Emergency Management Performance Grant (\$130,731); Weed and Seed – East San Jose (\$105,658); Weed and Seed (\$55,794); COPS 2003-2004 Interoperable Communications (\$41,749); 2005-2008 Human Trafficking Prevention Grant (\$39,102); Juvenile Justice and Delinquency Prevention Grant (\$30,617); and Internet Crimes Against Children (\$8,597).

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

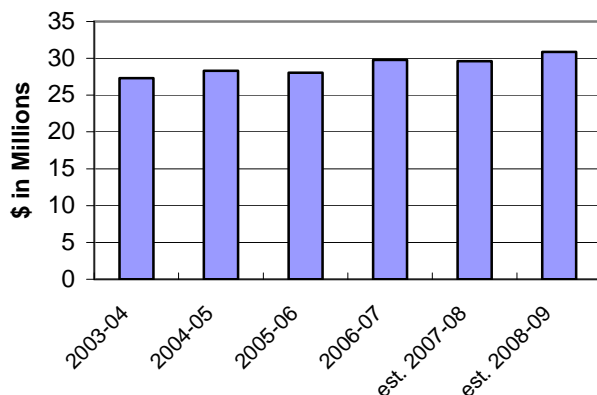
2006-2007 Actual	\$29,800,526
2007-2008 Adopted	\$30,714,618
2008-2009 Forecast*	\$28,772,445
2008-2009 Adopted	\$30,863,305
% of General Fund	3.0%
% Change from 2007-2008 Adopted	0.5%

* Decreased by \$604,225 from the February Forecast to reflect revised cost and revenue projections for the Public Works, Transportation, and Planning fee categories.

Major Categories:

- Police Fees
- Public Works Fees
- Transportation Fees
- Library Fees
- Planning Fees
- Parks, Recreation and Neighborhood Services Fees
- Miscellaneous Departmental Fees

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2008-2009 Adopted Budget, estimated Departmental Charges of

\$30.9 million are up 0.5% from the 2007-2008 Adopted Budget level, and 7.3% higher (\$2.1 million) than the Revised Forecast level.

The increase in the Adopted Budget in this category is mainly the result of adjustments to various fee programs, including approved increases to various fees to recover the projected costs and to address service level demands in 2008-2009.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs will be provided in the 2008-2009 Fees and Charges document released under separate cover.

Police Fees

The Adopted Budget revenue estimate of \$1.8 million for the Police Department, which is at the same level as the Forecast, is 12.4% above the 2007-2008 Adopted Budget level. This positive variance results from fee revisions throughout the fee program.

Public Works Fees

In 2008-2009, Public Works fees are expected to generate \$7.5 million, which is \$259,000 (3.6%) higher than the 2008-2009 Forecast, but \$1.2 million below (13.4%) the 2007-2008

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Public Works Fees (Cont'd.)

Adopted Budget level. The Public Works Fee Program is structured to be 100% cost recovery. Because of the significant decline in development related activity due to the slowdown in the economy, base costs for 2008-2009 exceeded projected revenues by \$1.4 million. To bring this program to cost-recovery for 2008-2009, a number of budget actions were approved in the Adopted Budget, including fee increases of 10% for the development fees. The fee increase includes a partial implementation of a fee restructuring effort that was discussed during development of the 2007-2008 Budget. No fee increases were approved for the fees charged to utility companies. Even with the approved fee increases, expenditure reductions are required to bring the program back into alignment. The elimination of 11 positions and the shift of 1.2 positions into the capital program were also approved.

Additional detail on these budget actions is provided in the Regulate/Facilitate Private Development Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2008-2009 Fees and Charges document that is released under separate cover.

Transportation Fees

Transportation Departmental Charges are expected to generate approximately \$1.0 million in 2008-2009, which is generally consistent with the 2007-2008 year-end estimate. This collection level is approximately \$7,000 lower than the Forecast for Transportation fees.

Library Fees

Library Department fees and fines for 2008-2009 are estimated at \$1.2 million, which is relatively flat when compared to the expected 2007-2008 year-end level.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications.

In 2008-2009, Planning Fees are expected to generate \$6.7 million, which is \$903,000 (15.6%) higher than the 2008-2009 Forecast of \$5.8 million that was set based on projected base costs for this fee category. Receipts in this category have been performing well, with revenues tracking above the budgeted estimate of \$6.3 million in 2007-2008.

To maintain the 100% cost recovery level for 2008-2009, fee increases averaging 7% and the transition of the Site Development Permits to a time and materials fee methodology were approved. On the expenditure side, a total of four new positions to be supported by this Program were approved to maintain performance levels. Additional detail on these budget actions is provided in the Development Plan Review and Building Construction Inspection Core Service (Community and Economic Development City Service Area). A more detailed description of the changes to the various fees is provided in the 2008-2009 Fees and Charges document that is released under separate cover.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are estimated at \$6.4 million in 2008-2009 based

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Parks, Recreation and Neighborhood Services Fees (Cont'd.)

on current activity projections, revenue changes associated with PRNS departmental operations, and approved fee adjustments in conformance with City Council direction to match revenues with program costs in order to maintain cost recovery. The 2008-2009 Adopted Budget estimate is significantly below the 2007-2008 Adopted Budget estimate of \$8.0 million to reflect the anticipated loss of revenue due to the temporary closure of Happy Hollow Park and Zoo during renovations in 2008-2009 (\$1.8 million). The loss of this revenue was anticipated when the 2009-2013 General Fund Forecast was developed. In addition, Animal Control Services fees are being shifted to the Miscellaneous Departmental Charges category to reflect the transfer of this function to the General Services Department.

The Adopted Budget also incorporates increases of \$139,000 to reflect the revenues associated with new facilities and increases of \$378,000 to reflect other fee adjustments in areas such as aquatics, fee classes, after school sports leagues, and the summer drop-in programs.

A more detailed description of the various fees assessed by the Parks, Recreation and Neighborhood Services Department is provided in the 2008-2009 Fees and Charges document that is released under separate cover.

Miscellaneous Departmental Fees

Collections of \$6.3 million are anticipated in 2008-2009 from a variety of miscellaneous

fees and charges, including \$3.3 million from the Solid Waste Enforcement Fee (SWEF) Program. A 12.6% SWEF increase, which will generate an additional \$372,000, was approved to bring expected revenues in line with anticipated costs.

In the 2008-2009 Adopted Budget, the most significant change in this category is the addition of a new Business Tax Administration Fee of \$22 annually to recover the costs associated with collecting the City's Business Tax. This new fee is expected to generate \$1.4 million annually. A Sidewalk Lien Administration Fee of \$45 was also approved that will recover the costs of collecting and processing property liens associated with unpaid sidewalk repairs. Approximately \$19,000 is projected to be collected annually from this fee.

As discussed previously, the Animal Control Services fees are being shifted into this category from the Parks, Recreation and Neighborhood Services Fee category to reflect the transfer of this function to the General Services Department. This results in the transfer of base fee amounts of \$482,000 and approved increases totaling \$78,000.

Rental income of \$300,000 from the Mexican Heritage Plaza is also displayed in the Adopted Budget for the first time as the City is now managing this facility. Approved increases in the City Hall event rates are expected to generate an additional \$20,000.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

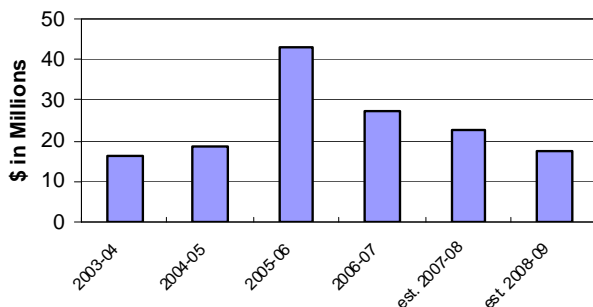
2006-2007 Actual	\$27,128,181
2007-2008 Adopted	\$18,527,194
2008-2009 Forecast*	\$15,973,504
2008-2009 Adopted	\$17,496,485
% of General Fund	1.7%
% Change from 2007-2008 Adopted	(5.6%)

* Increased by \$1,253 from the February Forecast to reflect a higher Sale of Surplus Property amount (\$100,000), offset by a lower Finance Investment Program reimbursement (\$98,747).

Major Categories:

- FMC Land Lease
- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Public, Educational, and Government (PEG) Access Facilities
- Sale of Property
- Sidewalk Repair and Tree Maintenance Activities
- Other Miscellaneous Revenue

Collection Trend:



Revenue Estimates:

FMC Land Lease

In 2008-2009, FMC Land Lease revenue of \$4.7 million from the Airport is included in the Adopted Budget to reflect an amount sufficient to cover the debt service payments

made from the General Fund for the portion of the FMC property dedicated to Airport uses.

Currently, there is no offset for the annual debt service payments of approximately \$2.0 million supported by the General Fund. When this property was purchased, it was anticipated that it would be used for economic development purposes and that revenue generated from the property would be sufficient to offset the debt costs. In the 2008-2009 Adopted Budget, it is assumed that the City will be able to implement an economic development strategy that will offset the debt service costs by 2009-2010 at the latest. This is included as an ongoing budget balancing action in 2009-2010 that offsets the City's General Fund debt obligation of \$2.0 million. This offset, however, is not assumed as available in 2008-2009.

The approved strategy on the sale of the Airport West property is now expected to generate additional one-time revenue that was not factored into the 2008-2009 Adopted Budget. The use of the one-time option payments will be brought forward for City Council consideration during the 2008-2009 fiscal year.

GENERAL FUND REVENUE ESTIMATES

Other Revenue (Cont'd.)

HP Pavilion at San José Revenues

The City receives payments from the Arena Management associated with the use of the HP Pavilion at San José. In 2008-2009, it is estimated that \$4.4 million will be received for parking, arena and suite rentals, and naming rights.

Investment Program Reimbursement

The 2008-2009 estimate for this category is \$2.4 million based on the projected cost of this program that will be reimbursed from proceeds on investment earnings. This figure reflects an increase of \$78,121 from the Forecast based on the approved addition of a Senior Account Clerk that will be reimbursed by the Investment Program.

PEG Access Facilities

The 2008-2009 Adopted Budget includes \$1.25 million to reflect the payment from Comcast required under the Franchise Agreement. As defined in the Franchise Agreement, these funds will be used for capital expenditures in support of PEG Access facilities. There is an associated City-Wide Expenses allocation for this purpose.

Sale of Property

The Adopted Budget includes revenue in the amount of \$200,000 to recover the costs associated with the management and sale of General Fund surplus property. This figure was increased by \$100,000 in the Revised Forecast based on updated cost information.

In addition, it is anticipated that \$450,000 will be generated from the sale of property located at 450 Park Avenue. These funds were allocated to traffic calming activities at the direction of the City Council. Typically, the proceeds from the sale of property, above the

\$200,000 set aside to cover costs, are placed in the Reserve for Economic Uncertainty.

In 2008-2009, minor fee adjustments were approved for sale of street name sign and new subdivision traffic control signs, bringing the cost and revenue into alignment.

Sidewalk Repair and Tree Maintenance Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2008-2009 revenue estimate for this category is \$400,000.

Beginning in 2008-2009, property owners will be assessed for cost of tree services provided by the City. If the City performs emergency tree services, such as removing a tree that has fallen in the street during a storm, the property owner will be assessed a fee to cover the cost of this service. This fee is expected to generate \$400,000 in 2008-2009.

Other Miscellaneous Revenue

The 2008-2009 Adopted Budget incorporates other miscellaneous revenues including Banking Services (\$1.1 million), SB 90 reimbursement from the State (\$350,000), PG&E Energy Watch Program (\$188,560), parades and celebrations cost reimbursement (\$160,000), vehicle auction sales (\$144,000), City Hall parking revenue (\$120,000), and several smaller revenue categories.

An increase of \$200,000 to this revenue category is assumed in the Adopted Budget to reflect the anticipated contribution from the City's health insurance providers for a Wellness Program. An associated budget action is included to implement this program. This category also includes the rebudget of revenue for Public Art in Private Development (\$136,000) and the Hazardous Materials Consent Judgment (\$71,000).

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

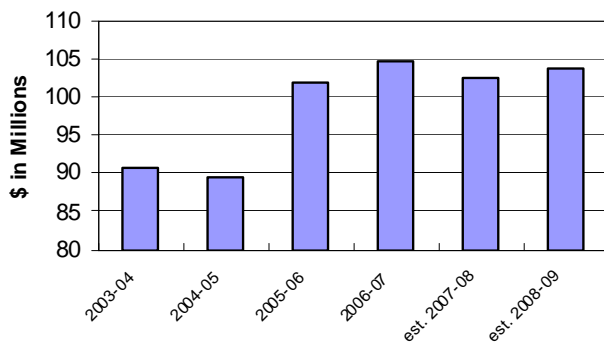
2006-2007 Actual	\$104,746,960
2007-2008 Adopted	\$100,604,767
2008-2009 Forecast*	\$99,548,287
2008-2009 Adopted	\$103,788,542
% of General Fund	10.2%
% Change from 2007-2008 Adopted	3.2%

* Decreased by \$621,627 from the February Forecast. This primarily reflects lower overhead and transfer reimbursements based on new overhead rates (\$1.3 million), offset by an increase in the Emergency Communication System Support Fee transfer (\$600,000).

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers.

In total, Transfers and Reimbursements are anticipated to generate approximately \$103.8 million in 2008-2009. This amount is slightly above the 2007-2008 Modified Budget level of \$102.4 million. Included in the 2008-2009

Forecast estimate is a net decrease of \$621,627 from the February Forecast. This reflects a downward adjustment of \$1.3 million to the transfers and overhead reimbursement categories based on updated 2008-2009 overhead rates, partially offset by an increase in the transfer from the Emergency Communication System Support Fee Fund based on an analysis of current activity levels and base costs (\$600,000), and increases in transfers from the Community Facilities Fund (\$20,500) and the Public Works Administration Fund (\$87,900) based on revised cost reimbursement estimates.

The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2008-2009.

Overhead Reimbursements

The 2008-2009 Adopted Budget includes \$34.3 million in overhead reimbursements from various special and capital funds. This amount reflects an increase of \$254,000 from the revised Forecast estimate. Adjustments to overhead reimbursements are generated from various budget adjustments that change the staffing levels funded by special funds. Descriptions of the budget actions that generate these overhead reimbursement changes can be found in the various City Service Area sections of this document.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

Following is a summary of the approved overhead reimbursement changes by fund:

- Airport Maintenance and Operation Fund: Increase of \$196,927.
- Convention and Cultural Affairs Fund: Increase of \$5,233.
- Community Development Block Grant (CDBG) Fund: Decrease of \$153,577.
- General Purpose Parking Fund: Increase of \$53,069.
- Integrated Waste Management (IWM) Fund: Increase of \$96,397.
- Low and Moderate Income Housing Fund: Increase of \$38,317.
- Public Works Program Support Fund: Decrease of \$1,938.
- San José/Santa Clara Treatment Plant Operating Fund: Increase of \$109,013.
- Sewer Service and Use Charge Fund: Decrease of \$87,041.
- Stores Fund: Decrease of \$47.
- Storm Sewer Operating Fund: Increase of \$30,484.
- Vehicle Maintenance and Operations Fund: Decrease of \$34,992.
- Water Utility Fund: Increase of \$2,066.

Transfers

In the 2008-2009 Adopted Budget, the revenue estimate from Transfers totals \$51.7 million. The largest transfers in this category are from the following funds: the Emergency Communication System Support Fee Fund (\$26.0 million); the Airport Maintenance and Operation Fund for Police and Fire services (\$16.0 million); the Construction Excise Tax Fund (\$4.2 million); and the Construction and Conveyance Tax Fund (\$2.2 million).

The Adopted Budget incorporates the following changes totaling \$4.0 million:

- An increase of \$2.0 million to the transfer from the Emergency Communication System Support Fee Fund to provide funding for 51 new dispatcher consoles that will be replaced with the renovation of the 9-1-1 Communications Center and for the 9-1-1 uninterrupted Power Supply. There is existing fund balance in the Emergency Communication System Support Fund to fund this transfer. No increases to the Emergency Communication System Support Fees were brought forward in this budget.
- An increase of \$1.2 million to the transfer from the Construction Excise Tax Fund as a budget balancing strategy.
- A transfer of \$370,000 from various funds for their share of the \$1.9 million set aside in the 2008-2009 Adopted Budget to address the unfunded liability associated with post-employment health benefits.
- A transfer of \$400,000 from the Vehicle Maintenance and Operations Fund ending fund balance.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds. For 2008-2009, the revenue estimate for this category is \$17.8 million.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2008-2009, collections from this source are projected at \$17.2 million, which is consistent with the 2007-2008 year-end estimate.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$125,000 and \$493,000, respectively.

GENERAL FUND REVENUE ESTIMATES

BEGINNING FUND BALANCE

Unexpended/Rebudgeted Earmarked Reserves	\$79,567,743
Expenditure Rebudgets	68,803,545
Unexpended/Rebudgeted Contingency Reserve	29,204,000
Excess Revenue/Expenditure Savings	24,240,839
Liquidation of Prior Year Encumbrances	1,065,414
Fund Balance Subtotal:	\$202,881,541
Reserve for Encumbrances	28,678,252
Fund Balance Total:	\$231,559,793
% of General Fund	19.9%

Estimates for both the unrestricted and restricted (reserve for encumbrances) portions of the 2007-2008 Ending Fund Balance/2008-2009 Beginning Fund Balance, totaling \$231.6 million, are included as part of the 2008-2009 Adopted Operating Budget. The estimate for the encumbrance reserve is set at the 2006-2007 actual level (\$28,678,252). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted fund balance has been set at \$202.9 million, representing a \$148.7 million increase from the 2009-2013 Forecast level of \$54.2 million. When the Forecast was developed, the fund balance projection included \$23.3 million from additional revenue and expenditure savings generated in 2007-2008; an unexpended Contingency Reserve estimate of \$27.4 million; the use of Earmarked Reserves (\$2.6 million); and \$1.0 million from liquidation of prior year carryover encumbrances.

The \$148.7 million increase from the Forecast reflects the following:

- Approval to rebudget \$59.7 million of unexpended earmarked reserves, including \$1.8 million for the Contingency Reserve,

and to use \$19.1 million of unexpended Earmarked Reserves. The combination of the Forecast and the Adopted actions result in a total of \$21.7 million used from Earmarked Reserves, including the following: the 2008-2009 Future Deficit Reserve to be used as part of the City's General Fund balancing strategy (\$7.3 million); the Salary and Benefits Reserve (\$5.0 million); the Enhanced Parks Maintenance Reserve (\$3.1 million); the Airport Overhead Reserve (\$3.0 million); portions of the Building and Fire Development Fee Reserves (\$2.0 million); the Future Capital Projects (FF&E) Reserve (\$550,000); the Neighborhood Investment Fund Reserve (\$546,381); and the Environmental Mitigation (Burrowing Owl) Reserve (\$164,247);

- Expenditure rebudgets of \$68.8 million, the majority of which represent Capital and City-Wide projects that were not completed in 2007-2008; and
- An increase in the expected expenditure savings or revenue surpluses from 2007-2008 (\$988,741); and an increase in the liquidation of prior year encumbrances (\$65,414) based on a review of actual performance in 2007-2008. The increase

GENERAL FUND REVENUE ESTIMATES

Beginning Fund Balance (Cont'd.)

in estimated expenditure savings or revenue surpluses was generated from expenditure savings associated with the City-Wide Strong Neighborhoods Initiative (\$500,000), the City-Wide Historic Preservation (\$49,241), and the City-Wide Downtown Soft Close Pilot Program (\$107,000) allocations along with anticipated savings from the Council General (\$300,000) appropriation and the Independent Police Auditor (\$32,500) that will not be needed in 2007-2008.